29 August 2016

EAPB Position Paper on the review of the Investment Plan for Europe

I. Background

In the light of the future developments concerning the Investment Plan for Europe (IPE) the European Association of Public Banks (EAPB) aims to explain its members' involvement in the implementation of the IPE. The aim is also to set out the priorities and concerns of the EAPB members in the context of the ongoing discussions, e.g. in the Consultative Group on the implementation of the European Fund for Strategic Investments (EFSI), initiated by the European Commission and the European Investment Bank Group, and in the framework of the Stakeholder Consultation Process launched by the EFSI Steering Board on the Orientation and Implementation of the EFSI Investment Policy and last but not least, in view of the further legislative steps concerning the adaptation and extension of the EFSI beyond the initial three years period announced in the European Commission's Communication published on 1st June 2016 and the relating developments as well as in other contexts, e.g. in the framework of potential parliamentary proceedings within the European Parliament.

EAPB members play an important role in the implementation of the EFSI. Thirteen direct and indirect EAPB members have agreed to cover over 2,5 bn EURO of investment relating to EFSI operations primarily in the SME sector. An unprecedented agreement between the European Investment Fund (EIF) and seven regional promotional banks in Germany paves the way in order to provide 110 million EURO of loans to innovative companies. This shows that the Investment Plan is gaining visibility through an easier access to finance for SMEs and therefore should encourage cooperation at national and regional level. National Promotional Banks and Institutions at national and regional level (NPIs) have a very important role under the Investment Plan; therefore the following concerns should be taken into account in the further process.

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II. General remarks

The planned extension of EFSI has to be critically reviewed. The review which is foreseen in the Regulation (EU) 2015/1017 on the use of the EU guarantee and the independent review on the functioning of the EFSI, the EIAH and the EIPP should be realised in order to take into account the lessons which can be learned as well as carefully assess the concrete results delivered before deciding on EFSI II.

The EAPB very much welcomes the aim to enhance the additionality principle. The additionality principle in general is a key feature of interventions under the EFSI which should be closely followed. However, EAPB members do not clearly observe additionality in the investments financed so far. The EIB group should concentrate its efforts on higher risk projects in order to make sure that every project is one, which could not have been financed without EFSI.

Moreover, the selection criteria are not clear and impair the usability of EFSI in general. Therefore EAPB also advocates for more transparency in the selection of the projects in order to give more incentive for investors and project promotors to consider EFSI operations.

Increasingly the EIB directly finances smaller projects on local markets under the IPE. Previously, the EIB – as a supranational bank – was mainly involved in large scale infrastructure projects. Today, this shifted to a lending which offers solutions to a wide array of projects ranging from SMEs to regional, state or multi-country projects covering all sectors. This expansion of lending activity of the EIB has been accompanied by a greater local presence, notably via new EIB offices. In this context there is no discernible additionality. To the contrary EIB offers overlap with existing NPI products. Additionally, NPIs are in a significant disadvantage given the fact that the EIB is not subject to state aid rules so that NPIs run the risk of being crowded out.

EFSI is a market instrument. Projects benefiting from EFSI support provided on market conditions should be considered as free of state aid, also in parts funded on similar terms from sources other than the EIB, for example NPIs. EAPB members would welcome such rules as they would enhance cooperation and ease the financing solutions in general. The EFSI guarantee which is at present only available for the EIB should be extended to operations by NPIs.

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The remarks below focusing on the further process and the extension of EFSI beyond the initial period (EFSI II) should underline that changes should be proposed in the upcoming proceedings:

III. Specific remarks

INSTRUMENTS AVAILABLE UNDER THE INNOVATION AND INFRASTRUCTURE WINDOW

- Based on the positive feedback, the EIB should **provide more guarantees and counter-guarantees** (optionally, on providing capital investments). Firstly, guarantee instruments allow achieving much **higher leverage**. Secondly, it ensures that other entities involved in financing on particular market are **not crowded-out**. This should allow addressing the actual problem in the EU which is risk aversion, especially in case of innovative projects, and **not lack of liquidity**. A practical way to implement it would be to adopt the minimum level/share of (counter-)guarantee instruments under EFSI.

- Taking into account the above, in case of a portfolio approach, the guarantee of the EIB should also **offer a real protection by guaranteeing the first loss piece**, at least to a certain cap limit. Guarantees pari passu are not an instrument for encouraging greater risk-taking, mostly they offer capital relief. An introduction of such a product into the range of options is needed.

- Notwithstanding the foregoing, **the EIB should retain the possibility of intervention with instruments other than guarantees in justified cases**. In these cases, the priority for the EIB should be to complement and not crowd-out the existing funding, and this should be secured in every project. In cases of co-investment, in which the EIB benefits from an additional guarantee of EFSI, the **EIB should always be subordinated to the other investors**. Only in this way added value of the EU guarantee will be ensured.

- In addition, on a more technical side, to provide stable funding to the European economies, the EIB should offer **fixed rate financing in national currencies** on a pre-agreed level and not fixed once the funds are being drawn.

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SME WINDOW

- **More resources should be allocated to well-functioning instruments under the SME Window, such as COSME.** In this context, the EAPB welcomes the agreement of 25 July 2016 between the European Commission and the European Investment Bank (EIB) Group allowing scaling up the SME window of the EFSI by shifting 500 million EUR from the EU guarantee from the Infrastructure and Innovation window to the SME window. The purpose of the EFSI guarantee to boost equity financing of SMEs and top up the InnovFin and COSME loan guarantee instruments as well as the EU Programme for Employment and Social Innovation (EaSI) is also very welcome.

- **Frontloading** – Financial instruments (e.g. COSME and Innovfin) were frontloaded in order to satisfy the high demand for operations under the SME window as from the beginning of EFSI. The EAPB is concerned about this practice as it has to be ensured that the **financial instruments are adequately equipped with sufficient financial means until the end of the current programming period until 2020 and beyond.**

- Guarantee instruments offered by the EIF should **remain as simple as possible and have broad coverage range.** Instruments focusing on market niches, defined in a too narrow manner, are not popular among financial intermediaries as they are very challenging to implement and do not provide economy of scale. Therefore in the case of COSME which remains to be the most universal instrument supporting SMEs, EAPB believes the legal maximum threshold should be increased, in order to reach even larger groups of European SMEs. The EIB group should facilitate this process.

- Under EFSI **mainly counter-guarantees should be used** as they ensure the involvement of existing local promotional banks and provide the benefits of a **much higher financial multiplier**, and thus a much more efficient use of funds allocated to SME support. In this respect, national and regional promotional banks and guarantee institutions should be the first contact point and **the partners of first choice for the EIB Group** in the geographical areas where they operate.

- In case of the SME Sector, guarantees priced on market terms meet with a very low demand. If the EIF sets a market price on its instrument, ultimately this cost is transferred to the final beneficiary. Therefore EAPB believes that in

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case of the SME sector **the guarantee fee should be either set at preferential terms or dropped completely.**

- Last but not least, reporting remains a high burden from the SME point of view. **Reporting requirements should not be too extensive** as the ultimate burden is always on the side of the final beneficiary. In the future instruments, at minimum, these requirements should not be extended, also because every change requires costly adaptations in the IT systems of financial intermediaries.

- **NPI Equity Platform** – It is common that equity financing operations of NPIs are realised via subsidiaries. However, corresponding EFSI operations are targeted towards privately managed funds. As subsidiaries of NPIs do not qualify for this criterion, existing promotional structures cannot apply and thus, financing potentials remain unused. In the future adaptations should take the existing structures into account and allow NPI subsidiaries to qualify.

COMBINATION OF EFSI WITH EUROPEAN STRUCTURAL AND INVESMENT FUNDS

- **Combining the support from EFSI with European Structural and Investment Funds should be much simpler.** The current guidelines do not provide sufficient simplicity and transparency. There is still a lack of information and clarity, especially concerning smaller operational programmes.

- Combining EFSI and ESIF in financial instruments bears some potential. As the focus, however, is on privately managed funds and promotional banks and their affiliates do not meet this requirement, existing promotional resources are not tapped.

INVESTMENT PLATFORMS

- The participation of a range of NPIs in an investment platform in order to reach scale by combining smaller infrastructure projects would be another way for NPIs to contribute to the innovation and infrastructure window of the IPE and would boost investment in this area. The broad definition of investment platforms provided for in the EFSI regulation however is not applied in practice. Hence, the existing promotional structures should be taken into account, especially in terms of the defined regional area of activity, the minimum amounts, the thematic scopes and the possibility of fully

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delegated credit decisions. Moreover, the requirements for ex-ante assessment and platform manager should be rethought, reporting requirements should be bundled and risk-sharing options proposed for such investment platform activities.

EUROPEAN INVESTMENT ADVISORY HUB

- The European Investment Advisory Hub (EIAH) providing technical assistance and tailored advice to project promoters, public authorities and private companies with the aim of strengthening Europe's investment and business environment could be an opportunity for EAPB members. As a principle, the EIAH should be complementary to existing initiatives and activities on national and local level. Since the EIAH relies on the expertise of its local partner institutions it remains however unclear for a number of EAPB members considering EIAH activities which concrete obligations occur in case of a participation agreement, especially at regional level.

The European Association of Public Banks (EAPB) represents the interests of 30 public banks, funding agencies and associations of public banks throughout Europe, which together represent some 93 public financial institutions. The latter have a combined balance sheet total of about EUR 3,500 billion and represent about 190,000 employees, i.e. covering a European market share of approximately 15%.

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